



# MILLS ACT PROGRAM OVERVIEW

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# OVERVIEW



*Los Angeles Public Library, 1929*

- California's leading financial incentive program for historic preservation.
- Contract between the City and property owner that allows for potential reduction in property taxes.
- Applies to all types of taxable properties: single-family, multi-family, commercial, and industrial.
- Provides incentive for restoring, rehabilitating, and maintaining eligible properties to promote appreciation of the City's architecture, history, and culture.



# BENEFITS

- Property tax is based on income potential of the property rather than most recent sales price or transfer value.
- Property tax based on highest and best property use prior to Proposition 13.
- Expectation tax savings used to offset cost of a substantial scope of rehabilitation, restoration, and maintenance work in conformance with the Secretary's Standards.



# ELIGIBILITY

## QUALIFYING PROPERTIES

- City-designated Historic-Cultural Monuments (HCMs)
  - Contributing properties to Historic Preservation Overlay Zones (HPOZs)
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## VALUATION LIMITS

- Tax assessed value of \$1,500,000 for single-family properties
- Tax assessed value of \$3,000,000 for commercial and multi-family properties





# CONTRACT TERM

## **Property owners enter into Mills Act contracts with the City:**

- Contract runs for a minimum term of 10 years and is renewed annually for the minimum term.
- Pre-approval and follow-up property inspections are performed every five years by the City.
- Contract runs with the land and is transferred to new owners when a property is sold.
- Property must be maintained in accordance with the Secretary's Standards and California Historical Building Code.



# CONTRACT TERM



- The Mills Act Program is under the authority of the Cultural Heritage Commission (CHC).
- CHC and Historical Property Contracts Manager review and approve alterations to properties.
- Contract covers entire property:
  - Interior and exterior of buildings
  - Landscaping and grounds
- Failure to rehabilitate the property may cause cancellation of Contract and 12.5% penalty.



# VALUATION LIMIT EXEMPTION CRITERIA



# VALUATION LIMIT EXEMPTION CRITERIA

## **Exemptions to Valuation Limits are granted if:**

- HCM or HPOZ contributor is of exceptional significance
- Property has excessive and/or unusual maintenance requirements and is otherwise in danger of demolition
- Revenue loss to the City will not exceed \$2 million annually for the entire program (all contracts)
- Exemptions require preparation of a Historic Structure Report (HSR)

**Properties located in the Greater Downtown Area and Hollywood Boulevard National Register District are exempt from the Valuation Limits**





# VALUATION LIMIT EXEMPTION CRITERIA

## CRITERIA

The CHC may grant exemption from Valuation Limits if:

- A. Granting the exemption will assist in the preservation of a structure (including unusual and/or excessive maintenance requirement(s) that would otherwise be in danger of demolition, substantial alteration or relocation; and
  - B. The structure is an exceptional HCM or Contributing Structure to an HPOZ; and
  - C. Granting the exemption will not cause the cumulative loss of a property tax revenue to the City to exceed \$2 million annually.
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## HSR

- National Park Service Preservation Brief 43
  - Part 1: Developmental History
  - Part 2: Treatment and Work Recommendations

# PRIORITY CONSIDERATION CRITERIA



## (A) Necessity

The residential, commercial or industrial project will require financial incentive in addition to any mortgage financing, private capital or public loans, to help insure the preservation of the structure. (Is the structure in danger of deterioration or in need of substantial rehabilitation?)

- Is a *substantial* scope of rehabilitation, restoration, and maintenance work necessary?
- Will proposed work preserve a strong sense of historic character that might be altered by a future owner?
- Are there distinctive features and finishes that are particularly prone to deterioration?
- Has the property experienced deferred maintenance by previous owners and consequentially requires a substantial amount of work?



# CREATION | CALIFORNIA

**Senator Mills introduced SB 357, signed by Governor Reagan on December 29, 1972.**

***“The purpose of my bill is to provide an incentive to restoring and maintaining points of historical interest in California.”***

***“This state abounds with priceless treasures of our dynamic history. All too often we have seen invaluable links with our past fall to the bulldozer’s blade as developers greedily devoured our heritage in the name of progress.”***

***“My legislation will provide an incentive to preserve historically significant landmarks so that future generations will be able to appreciate California’s cultural diversity.***

**-Senator James Mills, February 1977**

*Photo by William Henry Jackson, c. 1900*

# CREATION | LOS ANGELES



## **April 15, 1994 City Council Motion:**

- Retain older, affordable housing stock
- Retain residential structures of “real” historical significance
- Means to persuade property owners to preserve historic dwelling structures
- Council instructs Housing Department to work with the City Attorney, CAO, County Assessor, and Cultural Affairs Department to develop rules and procedures for Mills Act

**1996 Los Angeles Administrative Code  
Division 19, Chapter 14 created  
with amendments, Ordinance  
171,416**



# EVOLUTION | LOS ANGELES

## 2012 UPDATES

- State statute is amended to require the City, County, or Assessor to inspect Mills Act properties every 5 years.
  - City Council increases lost revenue cap to \$2 million.
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## REGULATORY SETTING

- LAAC Division 19, Chapter 14
- California Government Code, Article 12, Sections 50280-50290
- California Revenue and Taxation Code, Article 1.9, Sections 439-439.4



# EVOLUTION | LOS ANGELES



- Los Angeles has 716 Mills Act Contracts (1997-2013).
- Approximately 75% are single-family dwellings.
- The City has agreed to lose up to \$2 million of lost revenue under the Mills Act.
- The City's share of the 1% General Levy tax collected by the County is slightly under 11%.
- The Mills Act program is responsible for calculating the lost revenue annually.
- The amount is currently \$978,956.

# CALIFORNIA GOVERNMENT CODE

50281. Any contract entered into under this article shall contain the following provisions:

(a) The term of the contract shall be for a minimum period of 10 years.

(b) Where applicable, the contract shall provide the following:

(1) For the preservation of the qualified historical property and, when necessary, to restore and rehabilitate the property to conform to the rules and regulations of the Office of Historic Preservation of the Department of Parks and Recreation, the United States Secretary of the Interior's Standards for Rehabilitation, and the State Historical Building Code.

(2) For an inspection of the interior and exterior of the premises by the city, county, or city and county, prior to a new agreement, and every five years thereafter, to determine the owner's compliance with the contract.

(3) For it to be binding upon, and inure to the benefit of, all successors in interest of the owner. A successor in interest shall have the same rights and obligations under the contract as the original owner who entered into the contract.

(c) The owner or agent of an owner shall record the contract with the county in which the property is located within six months of entering into the contract.



# CALIFORNIA TAX CODE

439.1. For purposes of this article "restricted historical property" means qualified historical property, as defined in Section 50280.1 of the Government Code, that is subject to a historical property contract executed pursuant to Article 12 (commencing with Section 50280) of Chapter 1 of Part 1 of Division 1 of Title 5 of the Government Code. For purposes of this section, "qualified historical property" includes qualified historical improvements and any land on which the qualified historical improvements are situated, as specified in the historical property contract. If the historical property contract does not specify the land that is to be included, "qualified historical property" includes only that area of reasonable size that is used as a site for the historical improvements.

# SECRETARY OF THE INTERIOR'S STANDARDS

**Preservation**

**Rehabilitation**

**Restoration**

**Reconstruction**

# REHABILITATION

***Rehabilitation*** is the act or process of making possible a compatible use for a property through repair, alterations, and additions while preserving those portions or features which convey its historical, cultural, or architectural values.

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## **Emphasis:**

- Retain and repair existing historic materials
  - Avoid removal or alteration of distinctive materials and features
  - Avoid changes that create a false sense of historic development
  - Perform chemical treatments using gentlest possible means
  - New additions will be contemporary, compatible, and reversible
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# VALUATION METHODS

The Assessor is required to review all Mills Act parcels annually.  
They are valued by three different methods:

## **1: TRENDING BASE VALUE (PROP 13)**

Purchase price trended to roll being prepared. New construction is added on to the trended base value

## **2: MARKET APPROACH**

Comps used are non-Mills Act parcels

## **3: INCOME APPROACH**

All sources of income (potential rent, movie rentals, etc)

# VALUATION AND SAVINGS

The Assessor chooses the lowest of the three values:

**1: TRENDING BASE  
VALUE (PROP 13)**

**2: MARKET  
APPROACH**

**3: INCOME  
APPROACH**

The lowest of the three values is the value that the Mills Act parcel receives for the tax year.

# VALUATION AND SAVINGS

The new assessment will be reflected on the subsequent property tax bill issued in October, with the first bill due by December 10.

There are no retroactive provisions.





# QUESTIONS

2717  
2721